NORGESTION

Mergers Alliance

Global Engineering

Sector Review 2011

www.mergers-alliance.com

Capital City: Berlin
Area: 357,021 sq km
Population: 82,329,758
Time zone: GMT +1

Germany

"German engineering firms are at the forefront of innovation, especially in the industrial equipment and machinery sub-sector. The effect of the sharp increase in order intakes following the recession will feed through to the M&A market in 2011 seeing the return of both international and domestic strategic acquirers and private equity investors"

Philipp von Hochberg, CH Reynolds Corporate Finance

Overseas buyers active

M&A activity in the German engineering sector has not been immune to the effects of the global slowdown. The total transaction value peaked at $6.1bn in 2007 before falling by 90% during 2008 and 2009 registering just $600m. Based on the first half of 2010, transaction volumes are on track to be broadly similar to those achieved in 2009. Sentiment in the market suggests that the worst of the M&A malaise is over and that activity levels will begin to rise steadily from 2011 onwards when the steadily increasing order intakes will begin to be reflected in the order books and P&L accounts of engineering firms. This applies especially to those businesses operating in the machinery and equipment sector.

Since 2007 overseas buyers have been the major force completing 40% of deals, with a third sold to private equity buyers and the remainder sold to domestic acquirers. In gerneral, interest from abroad in the German engineering sector is not surprising given its worldwide reputation for high quality, innovative products and highly efficient production processes. Over the last three years, global giants such as Honeywell, Moog and Aker Solutions have all made substantial acquisitions of German engineering businesses. Private equity investors were very active until Q4 2008, especially in the industrial machinery and equipments sector on both the buy-side and sell-side.

M&A in 2009

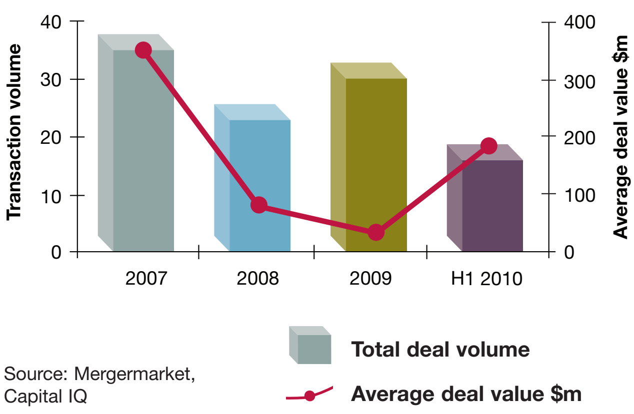
In 2009 there were only a few large transactions (reflected by an average deal value of below $10m), also the expected wave of distressed sales did not materialise as domestic banks decided to hold their engineering assets through the downturn aided in part by the extension of the government's short term allowance which assists businesses with their personnel costs.

During the economic crisis there were many opportunities for strategic M&A to consolidate specific niches and to position businesses for the economic recovery. For example, the acquisition of Kiefel Extrusion by plastic processing equipment manufacturer Reifenhauser.

The acquisition of Kiefel improves Reifenhauser's market position in a specific technical niche and the combined business will be able to leverage the ability to deliver a fully integrated offering as the demand for capital equipment recovers.

In the automotive sector a remarkable number of well known automotive suppliers went into administration or were acquired by private equity turnaround funds, for example the acquisition of TMD Friction by Pamplona Capital.

M&A activity



Source: Mergermarket, Capital IQ

Growth from international markets

After a protracted decline in the German engineering sector, there are now strong signs of life returning to the market as 2010 order intakes are reported to be 30-60% higher than 2009. This is primarily driven by strong export demand for German engineered products. More than 70% of capital goods produced by German companies are exported to international markets and therefore the future growth path of the sector is intertwined with the health of the global economy. Growth in recent years has been primarily driven by demand from emerging markets in Asia, particularly China.

Industry structure

Beyond the dominant global engineering giants (e.g. Siemens, GEA, Robert Bosche and Voith) the German engineering market remains highly fragmented, consisting mainly of mid-sized family owned, highly innovative, niche players. These businesses are referred to as Mittelstand companies. Some of these businesses are hampered by succession issues and funding needs which make them attractive targets for larger strategic acquirers of mid-markets orientated private equity firms.

However, we should also note that certain Mittelstand companies are now aggressively seeking international acquisition opportunities to strengthen their product portfolios on a global basis.

The backbone of German Engineering

The largest engineering sub-sector and backbone of the German economy is the industrial machinery and equipment sub-sector. The worldwide reputation of high quality, ‘made in Germany’ products is unparalleled. Industry players continue to invest in R&D to ensure they are at the forefront of innovation, current areas of R&D focus include energy efficiency and further automation of industrial processes.

During the economic crisis, this sub-sector suffered severely from postponed and cancelled orders as clients delayed making significant capital investments in plant and machinery. However, as the economy emerges from the worst of the recession, for those buyers who have come through with their balance sheets intact, strategic acquisitions are now back on the agenda and deals are being completed for example, the sale of Automatik Plastics Machinery to Maag Pumps Systems and TIG Automation’s acquisition of Wulff Energy Technologies.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Sep-10	BOA Group	Automotive components	AEA Investors (USA)	120
Sep-10	Bowe Systec	Mailroom systems	Axentum Capital (Switzerland)	n/d
Jul-10	STRACK & Phoenix Armaturen-Werke	Valves	AXA Private Equity	n/d
Jul-10	Ilmvac GmbH	Laboratory equipment	Gardner Denver (USA)	n/d
Jun-10	Automatik Plastics Machinery	Pelletizing equipment	Maag Pumps Systems (Switzerland)	186
Mar-10	Gautschi Engineering	Casting machines	Ebner (Austria)	n/d
Jan-10	Dunkermotoren	Precision motors	Triton Partners	208
Dec-09	3S Industries AG	Solar module equipment	Meyer & Burger (Switzerland)	294
Aug-09	MASO and SINE Pump business	Pumps	Watson-Marlow (USA)	36
Aug-09	Kiefel Extrusion	Film extrusion equipment	Reifenhauser GmbH & Co	n/d

Predictions

- German engineering firms will be sought after by international acquirers for their technical know-how and high quality product portfolios
- German Mittelstand engineering companies will look for domestic and international acquisition opportunities to strengthen their product portfolios
- M&A activity will increase in 2011 as the certainty of recovery increases buyer confidence and the upturn in valuations enables private equity to exit legacy engineering investments

Italy

Capital City: Rome **Population:** 58,126,212
Area: 301,230 sq km **Time zone:** GMT +1

"We predict the M&A trends which will dominate the Italian engineering sector over the next few years are domestic consolidation among small, family owned businesses and inbound M&A from international buyers seeking world-class, niche engineering expertise"

Piero Manaresi, Ethica Corporate Finance

Cross border M&A remains key

M&A transaction volumes in the Italian engineering sector fell in 2009 to almost half of the M&A boom years of 2007 and 2008. The combination of the global recession and the resulting cautiousness among large engineering corporates to engage in M&A as well as the stubbornly high price expectations of private owners has contributed to the fall in volumes. The first half of 2010 has seen volumes on track to achieve a similar level to 2009, however the average transaction value has rebounded strongly to $66m, highlighting investor appetite for larger transactions.

Cross border M&A has historically been a significant feature of the Italian engineering sector. In 2009 for example, over half of businesses were sold to overseas buyers. Italian businesses are attractive to international acquirers for their specialist expertise. Businesses recently acquired by overseas buyers including Comem, a manufacturer of advanced transformer components by ABB (Switzerland) and Turboden, a manufacturer of high efficiency turbo generators for clean energy production by Pratt & Whitney (USA). Overseas M&A interest has also been sparked by the opportunity to take advantage of semi-distressed transactions, particularly by US acquirers.

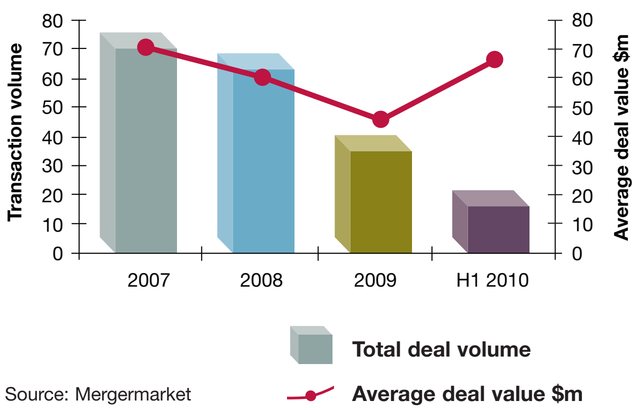
Private equity appetite for large deals

In November 2009 a consortium of investors, led by Ares Life Sciences, backed the $340m secondary buy-out of Esaote, a leading manufacturer of medical diagnostic equipment. The deal highlights the growing interest in the Italian medical equipment sector, specifically the diagnostic segment which has recently exhibited double digit growth rates as healthcare providers seek to reduce long term costs through early diagnosis and preventive treatments.

In June 2010, Charme Investments acquired a majority stake in Octo Telematics SpA, a provider of vehicle tracking systems to the auto and auto insurance markets. The deal valued Octo at an enterprise value of $197m, representing a multiple of 5 times historic EBITDA. The rising cost of auto insurance in Italy and elsewhere in Europe is forcing consumers to look for ways to lower their premiums through vehicle tracking systems.

In the absence of engineering mega deals, Fiat's acquisition of a 20% stake in US automotive group Chrysler, grabbed the headlines. The transaction was in line with Chrysler's strategy to restructure as a condition set by the US government for receiving $4bn in federal bailout funds. The deal gives Fiat an entrance to the US automotive market following a 30 year absence and also gives Chrysler the opportunity to leverage Fiat's environmentally friendly vehicle technologies in the US market.

M&A activity



Source: Mergermarket

Family owned businesses dominate landscape

The Italian engineering industry is dominated by small, family-owned niche businesses, a structure which is similar to a number of Italy's continental neighbours such as Germany and Spain. The approach and ethos of these family owned businesses has long been credited as a particular strength of the industry, ensuring high product quality and inspiring loyalty among customers. However, as the engineering market increasingly operates on a global basis, this loyalty will be tested as larger players, with the ability to serve clients internationally, compete aggressively with 'traditional' Italian engineering firms. In response to aggressive price competition from the Far East, Italian engineering businesses have specialised in providing higher added-value engineering in order to retain a competitive advantage.

The sector accounts for c.40% of Italy's total industrial production, with strength in the key sub-sectors of industrial, construction and automotive. The effects of the global recession on the construction market have significantly reduced orders books in the construction and industrial equipment segments. However, those businesses operating in the medical and clean technology niches have faired better through a combination of robust investment levels, lower competition and higher profit margins.

Medical sub-sector growing

The Medical equipment engineering sub-sector has grown rapidly over the last five years, emerging as one of Italy's new, world leading specialisms. The sector has attracted over $2.5bn of M&A investment in the last five years with 35 transactions, the majority of which were completed by overseas buyers acquiring state-of-the-art technology to sell into their domestic markets. Buyers have focused on the medical equipment and surgical tools segments, the latter seeing landmark deals such as US firm Medtronic's $434m acquisition of Invatec, a manufacturer of cardiovascular surgery equipment. In the medical sub-sector we expect to see continued M&A given the opportunity to acquire proven technologies which, in the long run, can be cheaper than developing them through in-house R&D divisions.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jul-10	Valbart	Ball valves	Flowserve (USA)	192
Jul-10	OMVL	Fuelling systems for gas-propelled cars	Westport Innovations (Canada)	24
Apr-10	Octo Telematics	Telematic systems for cars	Charme Investments Private Equity	118
Mar-10	Società Esplosivi Industriali (SEI)	Defence products	Rheinmetall Defence (Germany)	n/d
Jan-10	Invatec	Cardiovascular equipment	Medtronic (USA)	434
Nov-09	Esaote	Medical equipment	Ares Life Sciences	403
Oct-09	Sole	Home appliance motors	Nidec (Japan)	64
Jul-09	Fantuzzi Industries (port equipment)	Cranes and lifting equipment	Terex (USA)	223
Jul-09	Turboden	Turbogenerators	Pratt & Whitney (USA)	n/d
Jan-09	Vertical Spa	Steel pumps	Franklin Electric (USA)	n/d

Predictions

- Overseas acquirers will continue to be attracted to the niche expertise of Italian engineering businesses
- Consolidation will increase among small to medium sized engineering firms as they seek scale to compete on an international basis
- Domestic firms operating in lower margin engineering sub-sectors will diversify into higher margin sub-sectors through the acquisition of medical, clean technology and electronics engineering businesses

Capital City: Amsterdam Population: 16,715,999
Area: 41,526 sq km Time zone: GMT +1

The Netherlands

"As global leaders in higher added-value engineering, Dutch industrial markets will continue to attract the interest of international buyers"

Bart Jonkman, BlueMind Corporate Finance

Restructuring pushes M&A volumes higher

Somewhat surprisingly, transaction volumes in the Dutch engineering sector peaked in 2009 during which 64 deals were completed. Deeper analysis of the nature of the deals shows that this pronounced peak in activity can be attributed to corporate restructuring programmes which led to the disposal of a number of non-core engineering assets.

The trend for disposals appears to be dissipating during 2010 as transaction volumes have slowed on a pro rata basis to just a third of 2009 levels. Domestic buyer appetite remains low, as corporates who have completed recent restructurings take stock before engaging in acquisitions to support their new, refocused strategy. The engineering M&A market is relatively inactive and is likely to remain so until businesses have clear visibility on earnings which will in turn give them confidence to acquire again.

US is a major investor

Overseas interest in the Dutch engineering sector is clearly evident from the statistic that over a third of all M&A has been completed by overseas acquirers. The USA has been the dominant international acquirer completing 25% of all inbound cross-border M&A. US based buyers have also been the dominant acquirer in many of the countries analysed in this report. A favourable exchange rate between the US Dollar and the Euro has enabled US acquirers to compete strongly for overseas assets.

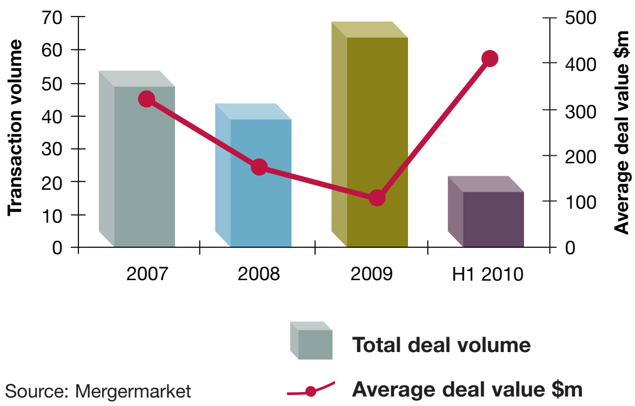
Private equity attracted to Dutch industrial markets

Over the period, the average transaction value has been heavily skewed by two international mega-deals. The $1.5bn buy-out of Stork NV by UK based private equity investor Candover in 2007 and the acquisition of Numonyx by US based Micron Technology in 2010.

The acquisition of semiconductor engineering company Numonyx by Micron creates a global giant spanning several key semiconductor sub-sectors. The deal further strengthens Micron's market leading position in memory semiconductors, provides increased global manufacturing scale and most importantly, gives access to Numonyx's customer base into which they can cross-sell a multi-chip offering. The deal was structured as an all-stock transaction which valued Numonyx at $1.3bn which represented a historic Enterprise Value / EBITDA multiple of 6.3 times.

In the mid-market, European private equity house Bencis Capital made two acquisitions in November 2009 as part of a buy-and-build strategy in the engineered building products segment. It acquired Daalderop Group and Itho Group (now Tree House Group) in secondary buy-out transactions from 3i and Rabo Private Equity respectively. Daalderop Group is a manufacturer of gas fired boilers and Itho Group provides ventilation and air conditioning systems. Bencis followed these deals up with the acquisition of Smulders Groep.

M&A activity



Source: Mergermarket

Focus on higher added-value products

The Dutch engineering market is relatively small in the context of the global industry, valued at $39bn in 2009. The domestic industry has shrunk significantly over the past 25 years as engineering businesses have chosen to move production facilities to low-cost countries such as Turkey, India and China. As a result, those remaining businesses tend to focus on innovation, flexibility and knowledge-based production techniques to distinguish themselves from larger foreign competitors.

Today, The Netherlands is a world class centre for high-added-value engineering which requires a highly educated and technical work force. This expertise and access to white-collar engineers is encouraging engineering businesses to relocate the most complex parts of their production process back to The Netherlands. We expect the high added-value businesses to continue to be attractive acquisition targets for the lower margin, traditional engineered product groups who are seeking new, higher margin growth markets.

Key sub-sectors

An example of a high added-value sub-sector in which The Netherlands is a leading international player is electronics engineering. Dutch based companies such as Phillips and ASML, in conjunction with their domestic supply chain partners, are at the forefront of product innovation and development.

Other important sub-sectors include medical devices and food processing. Despite being a mature market, the medical devices sector is forecast to grow at 5.8% per annum over the coming two years. Growth is attributed to an increase in demand for healthcare services following the introduction of new healthcare insurance system in 2006.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Apr-10	Hydrospex	Heavy lifting equipment	Actuant (USA)	20
Feb-10	Numonyx	Flash memory	Micron Technology (USA)	1,270
Feb-10	NRF	Heating and cooling equipment	Banco Products (India)	29
Feb-10	Division of Stork Food Systems	Processing systems food & dairy	Nimbus	n/d
Jan-10	Smulders Groep	Steel constructions and wind turbines	Bencis Capital Partners	n/d
Nov-09	Tree House Group	Air conditioning unit manufacturer	Bencis Capital Partners	n/d
Nov-09	Princess Holding	Electric household appliances supplier	WMF AG (Germany)	8
Oct-09	Dutch Opthalmic Research Center	Ophthalmic products	Friesland Bank Investments	n/d
Jun-09	Ligtvoet Products	Wheelchairs and stair lifts	Handicare (Norway)	37
Mar-09	Vanderlande Industries	Baggage handling systems	NPM Capital	n/d

Predictions

- High added-value Dutch engineering groups will be the target of international acquirers
- Private equity firms will continue to target distressed engineering groups for non-core disposals
- M&A activity in the medical devices market will continue to grow with interest from trade and private equity acquirers

Capital City: Warsaw

Area: 312,679 sq km

Population: 38,482,919

Time zone: GMT +1

Poland

"Private equity and international trade buyers have been cherry picking niche Polish engineering firms for the last 12 months. We expect M&A activity to focus on the automotive and energy sub-sectors during 2011"

Piotr Olejniczak, IPOPEMA Securities

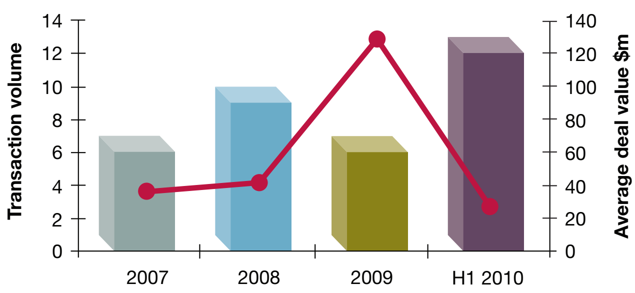
The largest transaction in the Polish engineering sector over the last three years was the $360m public to private acquisition of HTL-Strefa by private equity group EQT, completed in December 2009. HTL-Strefa is a world leading developer and manufacture of blood sampling equipment. EQT paid an eye watering 22 times historic EBITDA for the business, showing their confidence in both the growth prospects for the medical devices market and HTL-Strefa's position as a global leader in blood sampling technology. EQT will provide both financial and managerial resource to assist the company in its next stage of development which may include bolt-on acquisitions. Another notable transaction was the $44m acquisition of Optopol, a supplier of advanced ophthalmic diagnostic equipment, by Japanese technology firm Canon.

Abundant mid-market deals

Transaction volumes in the Polish engineering sector have been very low over the past three years. However, on a pro-rata basis, transaction volumes in 2010 are forecast to be four times higher than those achieved in 2009. This growth in deal volume is being driven by a combination strategic international trade buyers and private equity investors who are focusing their attentions on the high growth markets of the Polish and Central and Eastern European (CEE) engineering sectors.

The average transaction value, when adjusted for one large transaction in 2009, has remained resolutely in the $30m to $40m range indicating that the sector is highly active for lower and mid-market deal opportunities.

M&A activity



Source: Mergermarket, Capital IQ

Foreign buyers jump in

Two thirds of all transactions were sold to overseas buyers highlighting the appetite for Polish engineering assets. Furthermore, the average transaction value for cross border acquisitions was $70m, showing that overseas acquirers have a clear preference for acquiring larger, more substantial operations in Poland to give them a significant market position from day one. The majority of overseas bidders were from Western Europe, acquiring exposure to tangential geographic markets, examples include UK based Caparo Group and Swedish engineering company ABB who have both recently acquired in Poland.

Mining equipment M&A activity

During recent years, there has been a clear trend for consolidation among engineering businesses in the Polish mining equipment sector. Much of this M&A activity has been led by Famur and Kopex who have completed a number of small domestic transactions and also several deals in CEE countries. One notable transaction was Kopex's acquisition of Ryfama for $22m. Ryfama extends Kopex's product portfolio into the scraper conveyor market and strengthens their ability to provide integrated solutions in the European market.

We expect to see major players such as Famur and Kopex engage in outbound M&A as they seek exposure to the mining sector in high growth countries such as India and Vietnam. Given the nature of the equipment and machinery, proximity to your client is a key consideration in the mining sector and one of the reasons why acquisition, as opposed to organic start-up, is the preferred route into new geographic markets.

Changing ownership structure

The engineering sector in Poland is vital to the health of the economy. Its expertise has been shaped by the country's reliance on core industries of energy, mining and heavy equipment. The top five companies listed on the Warsaw stock exchange, measured by market capitalization, are all manufacturers of engineered products.

The top five companies, also all happen to be formerly state-owned companies that have been privatized following the overthrow of the communist government in Poland in 1989. The Government has retained significant stakes in a number of companies and we expect further disposals over the coming year which will represent unique opportunities for overseas acquirers to buy into large, stable Polish engineering businesses.

Power engineering catch up

The Polish power sector has suffered from decades of under investment, sector experts estimate than more than $35bn is needed to be spent over the next five years to upgrade plant and equipment in order to be able to meet Poland's energy requirements for the next decade. This huge capital investment should benefit participants across the length of the supply chain from specialist niche suppliers to OEMs.

Despite the prominence of heavy industry, other sub-sectors have also grown significantly in recent years. The boom in construction (both infrastructure and commercial) has rapidly increased demand for engineered building products including HVAC and communications equipment. Tier 1 and Tier 2 automotive suppliers have benefited from a number of automotive assembly lines being relocated to Poland.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jun-10	Maflow Polska	Auto components	Boryszew	21
Mar-10	Amica Wronki	Consumer appliances	Samsung (South Korea)	71
Mar-10	Zamet	Industrial equipment	Pioma Industry	30
Feb-10	Ryfama	Mining equipment	Kopex	22
Dec-09	Optopol Technology	Diagnostic equipment	Canon (Japan)	44
Aug-09	HTL-Strefa	Blood sampling equipment	EQT Private Equity	360
May-09	Fabryka Lin i Drutu Drumet	Wires, ropes and staple bands	Penta Investments	37
Feb-09	PZL Swidnik	Helicopter manufacturer	Finmeccanica (Italy)	78

Predictions

- Modernization of the Polish power sector will ignite M&A demand for Polish power engineering firms
- Tier 1 and Tier 2 supplier to the automotive sector will be attractive acquisition targets for private equity and international buyers
- Polish engineering companies in the mining sector will engage in outbound M&A to access high growth markets

Capital City: Moscow **Population:** 140,041,247
Area: 17,075,200 sq km **Time zone:** GMT +3

Russia

"The engineering sector in Russia is affected by two forces: the need for innovation and new technology and the desire of the Russian authorities to gain control over the strategically important companies. The balance between these two forces will govern the future development of M&A activity in this sector"

David Wolfe, Northstar Corporate Finance

Recovery after economic crisis

The economic crisis has affected all of Russia's industries, including the engineering sector. The slump in production, rollback of investment programs and a plunge in sales were the major signs of trouble within the sector and have resulted in the recent low M&A activity levels.

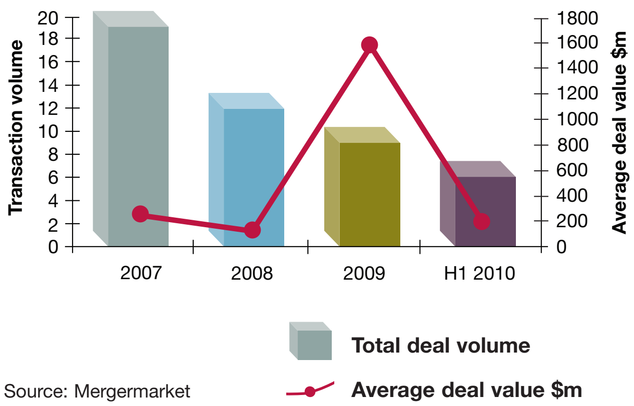
Even with this softening, there have been some notable transactions during 2009 and 2010. UK based Technix Maritime Investment acquired a 90% stake in SpetsMontazhStroy, a Russian company specialising in hydraulic engineering, excavation and drilling equipment. The state-owned industrial corporation "Oboronprom" continued to acquire, providing evidence of its consolidation strategy in the Russian helicopter and aircraft engines market. As with many transactions in Russia, the considerations of these deals were not disclosed.

Growing domestic private equity investment

The number of private equity investments in the engineering sector increased in 2009 and H1 2010 to seven deals compared to only one in 2008. Gazprombank acquired an 85% stake in Forpost-Management, a Russia based investment company of manufacturing service equipment companies for the nuclear, oil and gas industry. There were also acquisitions of mining companies by Gazprombank Asset Management and of Volgograd manufacturing assets by Russian Financial Corporation.

Western private equity houses have not been active of late in the engineering sector principally as sub-sectors such as aerospace, defence and power equipment are considered to be strategic industries by the Russian Government. There are therefore numerous barriers and restrictions on foreign ownership of such businesses.

M&A activity



Source: Mergermarket

Need for innovation and increased capacity

The engineering sector is in great need of up-to-date manufacturing equipment. At least 70% of the existing capital assets are outdated. Domestic demand for new metal-machining equipment is over 50,000 units annually and the Russian machine tool manufacturers meet less than 1% of this internal demand.

This is also true for other engineering sub-sectors such as power engineering, which meets only 30% of the domestic demand. By 2015, the Russian railway equipment market is estimated to have a shortfall of over 200,000 units of rolling stock.

Power engineering is of strategic importance

The Russian authorities have tried to gain influence in the power engineering sector by buying (directly or indirectly through state owned enterprises) stakes in companies. In the nuclear sector, several companies were consolidated within OAO Atomenergomash, including the acquisition of the nuclear equipment manufacturer Petrozavodskmash, from Leonid Beluga, a private investor, for an estimated consideration between $24m - $33m.

Along with the energy reform and the growing demand of power generation companies, the equipment producers are trying to modernize their production processes. This is being partly achieved through cooperation with foreign companies, for example Pratt & Whitney / Iskra and Alstom / Atomenergomash. The growing demand for power equipment should stimulate M&A in this sector which is likely to increase over the next year, initiated by domestic industrial holdings along with some of the asset management arms of Russian banks.

Automotive sector should strengthen

The Russian automobile market is expected to become the third largest in the world by 2012 after the US and China. Given this backdrop there are signs that 2011 could bring substantial M&A growth, with a number of deals already in the pipeline. Germany's Daimler has recently expressed an interest in increasing its 10% stake in heavy trucks maker Kamaz.

Over the past six years, 24 Russian automotive assets have changed hands for a total of over $2bn. The most significant deal of this period was French manufacturer Renault's acquisition of a 25% stake in AvtoVAZ, its Russian counterpart for $1bn. This investment has proved problematic and in November 2009, the Russian government and Renault announced a $1.7bn rescue package, with Renault contributing c.$369m.

While foreign corporates have seemingly taken a bullish view of the sector, the same cannot be said for financial investors. Just two private equity-related transactions have occurred in this particular space since 2004.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jul-10	Quartz Group	Engineering in energy sector	Inter RAO UES ORD SH	n/d
May-10	OOO Ural Locomotives	Locomotive manufacturer	Siemens (Germany) through JV	n/d
Mar-10	United Aircraft Corp	Aircraft manufacturer	Vnesheconombank	1,566
Feb-10	Petrozavodskmash Corp	Nuclear equipment	Atomenergomash OJSC	46
Aug-09	Plants of Volgograd	Drilling equipment	Russian Financial Corp (RFC)	n/d
Apr-09	SpetsMontazhStroy	Hydraulic engineering	Technix Maritime Investment (UK)	n/d
Mar-09	Forpost-Management Zao	Heavy industrial machinery	Gazprombank OJSC	n/d
Mar-09	Sibir Technik; S7 Engineering	Aircraft engineering	Alfa Group Consortium	n/d
Jan-09	Aviadvigatel OJSC	Aero-engines	Oboronprom United Industrial Corp	n/d

Predictions

- The level of M&A activity in the engineering sector is expected to grow, especially in the power, oil & gas and automotive sub-sectors
- State owned holdings will continue to gain control over the engineering equipment manufacturers in the strategically important engineering sub-sectors
- Private equity activity in the engineering sector is likely to pick up over the second half of 2010 and 2011, initiated by domestic private equity firms with some of the state-backed Russian banks providing funds for investment

Deal Focus

Countries: Norway, Sweden, Denmark, Finland
Population: 24,784,800
Area: 12,166,85 sq km
Time zones: GMT +1 to +2

Scandinavia

"We can clearly see that the dramatically improved profitability in the sector has enabled many Scandinavian engineering companies to renew their efforts in building international competitiveness through cross-border acquisitions. We expect this behaviour to continue into the years ahead"

Hakan Persson, Experia Corporate Finance

Relatively subdued M&A activity

Deal activity in 2009 was depressed in terms of volume and even more strikingly in terms of value. The first half of 2010 has still experienced low activity levels, however the average deal size has markedly risen.

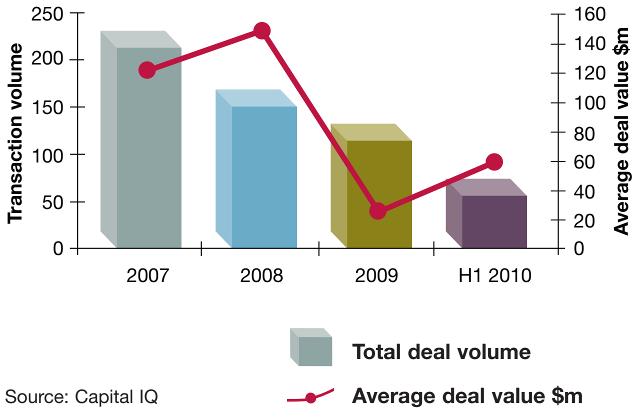
There have been a small number of more substantial transactions this year, such as Nordic Capital's acquisition of Norwegian wheel-chair maker Handicare, a consolidator in the assisted living products market, but in reality the interest for Nordic targets from local or international buyers has remained relatively subdued.

Interest from the East

In August, Geely, a young Chinese company (founded in 2003) acquired Volvo from Ford for a total consideration of $1.8bn. Through this acquisition, Geely will gain an international, well-recognized brand as well as access to sophisticated technology and know-how. These are all important factors for the development of Geely to become a major player in its rapidly growing domestic auto market.

This deal is particularly attractive when we consider that Ford paid $6.5bn for Volvo 11 years ago. Geely clearly benefited from Ford's financial difficulties and the precarious situation in the auto sector during the two years the deal was being discussed. Geely has already announced plans to produce 300,000 Volvo cars in a new plant in China, and by 2015 it's intention is to reach a total output of 2 million cars under the Geely and Volvo brand names.

M&A activity



Source: Capital IQ

Export driven economies

The Nordic countries are small, open economies, and whilst they were all hit hard at the beginning of the downturn, they were amongst the first to rebound. The region is characterized by big international companies with a high export share and global market presence.

Despite Norway not being part of the EU, the legal harmonization between the four Nordic countries has come far, which naturally facilitates regional M&A. Norway's strong economy was not as severely affected by the recession partly due to its strength in the offshore oil & gas sector.

In Sweden, the manufacturing and automotive sectors dominate and although hit hard by the crisis, they have recovered and business confidence is back.

In Denmark there are some increasingly strong export led businesses including Vestas Wind, which has grown strongly on the back of increasing demand for their wind turbines.

In Finland, forestry, mineral extraction, heavy industry such as ship building and manufacturing all drive engineering demand. With industrial output soaring (up 14% yoy in June 2010) particularly boosted by gains in the forestry and paper sector, we expect a strengthening of the overall engineering sector.

Offshore industry rebounding

The growth in demand for energy, the perceived decline in new large scale hydrocarbon reserves and the race to secure rights over existing sources are shaping the M&A landscape of the global oil & gas industry.

The sharp increase in oil prices proved to be a significant driver of engineering led M&A during 2007 and 2008 within the Nordic region. As the price dropped from the peak of $150 per barrel to the low of $35 so did the level of M&A. Now that crude prices have recovered and are rising again, more transactions are being completed. Last year for example, US based FMC Technologies, a global provider of technology solutions for the energy industry, acquired Multi Phase Meters AS (MPM) for c.$45m in order to secure new technologies for the growing international offshore sector.

Power shift in the automotive sector

Many automotive transactions in 2009 were as a result of distressed situations in the very difficult market conditions that prevailed in the wake of the financial crisis. Globally, the collapse of vehicle sales in the Western world culminated in the restructuring of the whole industry, and to some extent, the balance in power shifted from West to East.

The two main Swedish automakers changed owners. SAAB was acquired by Dutch Spyker in a transaction that was finalized only days before the potential liquidation of the company by GM, and as previously mentioned Chinese carmaker Geely picked up Volvo from Ford. Both these transactions were unusual to the extent that the buyers were both considerably smaller than the targets, in financial terms.

In 2010, the operating environment is showing signs, primarily vehicle sales statistics, that the stress is easing and we have embarked on the path to recovery. This potential recovery presents an opportunity for industry players to deliver profitability and growth through a continued restructuring of the industry map. In this process, M&A will be one very important element.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jun-10	Handicare (Norway)	Assisted living products	Nordic Capital	n/d
Jun-10	Daros Piston Rings (Sweden)	Piston rings	Federal-Mogul Corp (USA)	n/d
Jun-10	Selantic (Norway)	Lifting equipment	Actuant Corporation (USA)	n/d
May-10	Simrad Optronics (Norway)	Remote-controlled weapons	Rheinmetall (Germany)	105
Apr-10	Reological (Sweden)	Research instruments	Malvern Instruments (UK)	n/d
Mar-10	Finnveden Powertrain (Sweden)	Connecting rods	Mape (Italy)	n/d
Feb-10	Dantec Dynamics (Denmark)	Measurement Systems	Nova Instruments (USA)	22
Jan-10	Carnitech (Denmark)	Processing equipment	American Industrial Acquisition (USA)	n/d
Jan-10	Techno Skruv in Värnamo (Sweden)	Fasteners and components	Indutrade	n/d
Sep-09	Multi Phase Meters (Norway)	High performance flowmeter	FMC Technologies (USA)	45

Predictions

- We will see growth in cross-border M&A activity for the engineering sector in the region. Nordic companies have had a faster recovery from the global economic downturn and will aim to grow internationally
- Export sales will continue to grow rapidly which will make the export-oriented Nordic companies more attractive to foreign investments
- Fundamentally low valuations will attract and favour cash-rich international strategic acquirers as the access to bank funding is still limited for local investors

Spain

Capital City: Madrid
Area: 504,782 sq km
Population: 46,745,807
Time zone: GMT +1

"Spanish engineering companies, especially those involved in the energy and power generation markets, will be obliged to grow, mainly overseas, in order to support their current client's needs and the future development of their markets"

Igor Gorostiaga, Norgestion

Overseas buyers account for half of all deals

During the last 18 months, the number of engineering deals in Spain has decreased slightly in comparison with previous years, as has the average deal value, although this appears to have stabilised. Interestingly, there has not been one engineering mega-deal completed in Spain during the last two years and the majority have been small or mid-market deals between $10m and $50m.

Whilst the number of cross border deals has also decreased slightly in absolute terms, as a proportion of overall M&A activity they continue to grow. In relative terms cross border engineering deals now represent half of all transactions compared to a third in 2007.

The US has been the most active individual country since 2007, completing 11 deals and investing mainly in industrial and energy related engineering companies. Other international corporate acquirers have predominantly come from EU countries, especially the UK (7 deals) and Germany (10 deals). The rationale for these buyers in particular has tended to be to gain scale to compete against US and Asian multi-nationals, and they have taken advantage of the relatively fragmented state of the Spanish engineering sector to buy mid-market companies.

By contrast, the number of deals involving private equity firms has decreased sharply since 2007 due to the lack of credit in the Spanish banking market.

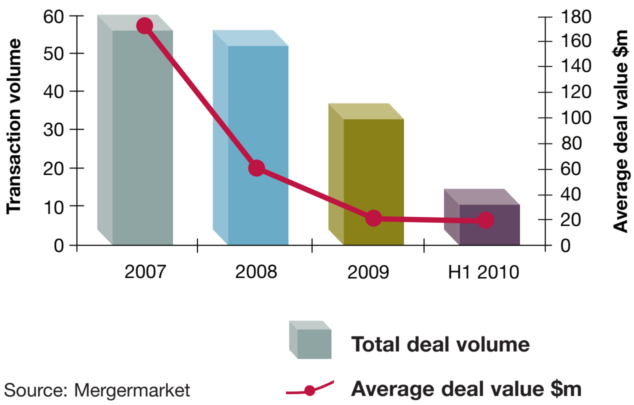
Renewable energy centre of excellence

Spain has developed into one of the most progressive countries with regards to renewable energy development and engineering as a consequence of targeted legislation.

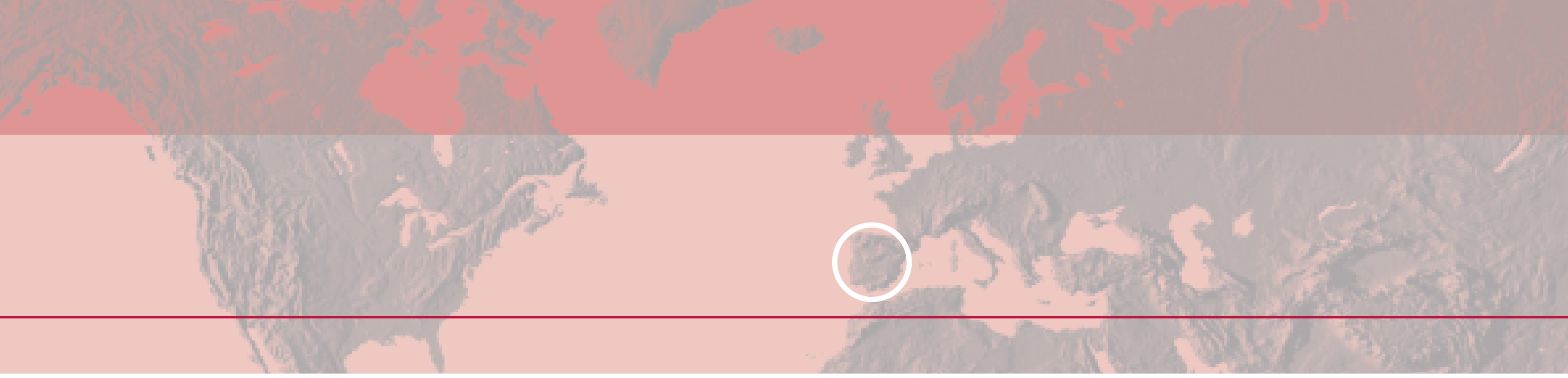
A notable recent transaction in the sector was the acquisition of Isofoton by a consortium of Affirma, a Spanish energy engineering business and TopTec, a listed South Korean business specialising in photovoltaic products. Isofoton is one of Europe's leading manufacturers of solar photovoltaics, the acquisition will allow Isofoton to expand its production capacity threefold to 500 MW annually on the back of a strengthened group balance sheet.

Spanish firms are also increasingly looking to acquire overseas. Gamesa, one of the world's leading wind turbine manufacturers is focused on international expansion. They plan to triple their investment in China through to 2012 and develop their manufacturing centres to cement their position as one of the top five wind turbine suppliers in that country. They have expressed an interest in growing through acquisition.

M&A activity



Source: Mergermarket



Opportunities beyond Spain

Overseas expansion is however not limited to renewables. Automotive engineering has become very important as well, since numerous OEM plants are now located in Spain. CIE Automotive, the Spanish Tier 1 automotive supplier based in the north of Spain is presently looking to invest in the US, South America and Russia. ITP, the aircraft-engine manufacturer has also shown interest in growing internationally as their recent acquisition of Alstom Aerospace in the UK demonstrates.

Expect more M&A in power equipment engineering

The engineering sector in Spain is very fragmented with over 17,000 companies and most of them small and medium sized. Historically engineering development has been prioritized towards the communication and power distribution industries. A large number of domestic companies were funded specifically to provide technologies and services to the large power and communication corporates like Iberdrola or Telefonica.

A number of the medium and larger power equipment companies (most of them still family owned) are now competing on the world stage. These companies have recognised the need to continue growing through (overseas) acquisitions in order to complete their product portfolios and reinforce their presence in key geographical markets; mainly the US, India and Eastern Europe. Some of them have been very acquisitive during the last decade, so much so that they are now of a scale to be targets of the larger multinational corporations such as Areva, Siemens and Schneider.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jun-10	Isofoton	Solar panels	Affirma/TopTec (Spain, South Korea)	45
Jun-10	Dytech ENSA	Exhaust gas devices	BorgWarner (USA)	n/d
Mar-10	SEMI	Power distribution equipment	Rooftops of Spain	13
Mar-10	M Torres Olvega Industrial	Wind turbines	El Sewedy Cables (Egypt)	n/d
Feb-10	Microeletronica Espanola	Smart Cards	American Banknote (Brazil)	13
Dec-09	Grupo Jema	Electronic Equipment	Irizar Sociedad Cooperativa	16
Oct-09	Telde SL	Energy projects	Energia Pura	35
Oct-09	Hispano Carrocera	Coach bodyworks	Tata Motors (India)	n/d
Sep-09	Grupo Simes	Fastening systems	Anclaje	7
Jul-09	Grupo Alcor (9 subsidiaries)	Aerospace	Alestis Aerospace	62

Predictions

- Spanish power equipment manufacturers will need to increase their presence overseas through cross border acquisitions
- There are a great number of small engineering companies, mostly industrial and focused in highly specialized niche activities, which are willing to enter into a consolidation process
- South America, US and India will be main target regions for Spanish engineering companies in the coming years

Deal Focus

Capital City: London
Area: 244,820 sq km
Population: 61,113,205
Time zone: GMT

United Kingdom

"UK assets are looking like good targets for those US acquirers who have come through the recession with strong balance sheets. The exchange rate helps make UK assets feel more affordable compared to similar US assets"

Mark Humphries, Catalyst Corporate Finance

M&A volumes and values on the rise

During the first half of 2010 over 60 transactions have been completed in the UK engineering sector, which on a pro-rata basis suggests volumes will be above 2009, which clearly represented a low point in the engineering sector M&A cycle. As the global recovery hardens and trading visibility improves, acquirers are gaining confidence to acquire larger businesses and pay higher valuation multiples. We have seen a marked increase in deal flow across the sector this year and average transaction values have increased to $70m during the first half of 2010 from $50m in 2009.

Leverage buy-outs are back

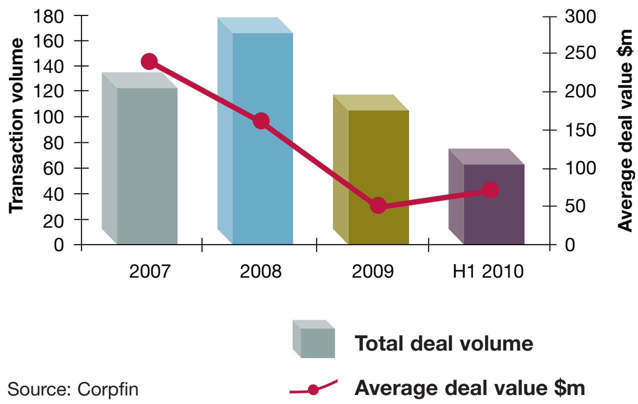
The stand out deal of the year is the acquisition of Tomkins plc by a club of Canadian private equity investors including Onex Corp and Canada Pension Plan Investment Board (CPPIB). The deal was funded with c.$3bn of debt financing and $2.2bn of equity. Tomkins is seen as one of the last of the great UK industrial conglomerates although in truth 93% of its products are made outside of the UK and the US represents 52% of its end user markets.

Undoubtedly Tomkins will not be the last UK engineering business to be a target from North America – pricing is relatively cheaper than similar US assets, there is more liquidity in the US debt market at the moment giving North American private equity funds more fire power and making them more deliverable than their UK counter parts.

Interest from emerging markets

Notable other deals include acquisitions by businesses based in the emerging markets of India and China. In March 2010 the Chinese firm Chongqing Machinery & Electric Co acquired Holroyd Precision, a manufacturer of precision tools for $30m. Chongqing stated that the acquisition was part of a strategic move to reinforce the company's technical capabilities and gain access to the European market. DavyMarkham, a manufacturer of heavy and complex engineering components and assemblies was sold to Indian buyer Hindustan Dorr Oliver (HDO) in a $15m deal. HDO acquired DavyMarkham to access their product expertise in the nuclear market, which they intend to sell back into the Indian power market.

M&A activity



Source: Corpfin

An industry transformed

The UK engineering sector has transformed itself over the last two decades from a sector with turbulent labour relations, a poor reputation for productivity and quality and a lack of investment into one which is globally competitive and is maintaining its position as the sixth largest in the world in terms of output.

Over this period, UK engineering has been shaken to its core having had to eliminate low added value operations and focus on what it is good at. The sector is now firmly focused on high added value niches, creating strong and defendable intellectual property underpinned by high design-to-build capability.

Led by world class management teams, British engineering companies navigated the recession by demonstrating their operational flexibility, strong position in complex global value chains, ability to exploit new technologies and the value of investment in design, branding and R&D.

UK has comparative advantage

Over half of all M&A investment has been in engineering sectors where the UK has established significant comparative advantage; aerospace, oil & gas and automotive. British success in these sectors has evolved over decades, benefiting from the existence of home grown world-class OEM multinationals, which source from clusters of local suppliers. Long term relationships with Rolls-Royce, BAE Systems and Shell amongst others have helped British engineering firms gain advantage in product innovation.

Many overseas parties recognise these strengths and consequently almost 75% of all funds invested in UK engineering over the last four years, through M&A or buy-outs, originated from overseas buyers. US companies have been by far the most dominant acquirers spending £10bn on over 100 businesses. Similarly, the US has attracted most UK acquisition investment over the decades as British firms have sought to access a large and relatively homogeneous market, especially in industries such as defence and aerospace. It is however clear that firms need to shift some focus to emerging economies such as India or they will miss out on a significant growth opportunity.

Expect more aerospace deals

The UK aerospace industry is second only to the US in terms of market size and has attracted £4bn of M&A investment since 2005. The long term outlook for the aviation industry is healthy. The strong relationships with OEMs and major Tier 1 suppliers such as Airbus, BAE Systems, GKN and Rolls-Royce should favour UK suppliers.

UK aerospace is at the forefront of innovation in engine and wing technology, as well as instrumentation and composite materials. Niche UK mid-market companies hold important positions across all stages of the supply chain and are attractive M&A targets for both trade and private equity buyers.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jul-10	H&F Drilling Supplies	Drilling equipment	Atlas Copco (Sweden)	n/d
Jun-10	Broady Flow Control	Flow control systems	Valvitalia (Italy)	n/d
Jun-10	AIM Aviation	Aerospace interiors	Lloyds Development Capital	n/d
Jun-10	Crompton Technology Group	Advanced composites	Goodrich Corp (USA)	n/d
Apr-10	Guralp Systems	Seismological instruments	Primary Capital	30
Jun-10	Delta Plc	Support structures	Valmont Industries (USA)	287
Mar-10	Holroyd Precision	Precision tools	Chongqing Machinery (China)	20
Mar-10	DavyMarkham	Complex engineering structures	Hindustan Dorr Oliver (India)	10
Feb-10	Gardner Group	Aerospace components	BECAP Fund	67
Feb-10	Minivator	Assisted living products	Handicare (Norway)	44

Predictions

- M&A activity will continue to gravitate to the UK engineering sectors of comparative strength including aerospace, oil & gas and automotive
- US buyers will continue to dominate M&A inflows into the UK over the next decade. There is undoubtedly a pent up demand for M&A and the exchange rate is helping make UK assets feel more affordable
- UK Engineering companies will feel compelled to access emerging growth markets such as Indian through JV's and M&A

Contacts

Mergers Alliance

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Austria	Finland	Mexico	Sweden
Belgium	France	The Netherlands	Switzerland
Brazil	Germany	Norway	Spain
Canada	India	Poland	Turkey
China	Italy	Russia	UK
Columbia	Japan	Singapore	USA

Mergers Alliance is a group of award winning corporate finance specialists focusing on middle-market M&A. The group comprises of 150 transaction professionals located in 25 offices around the world. So far in 2010 Mergers Alliance have completed over 100 deals worldwide valued in excess of $4bn.

For further information on Mergers Alliance and its member firms, please contact Stas Michael, Mergers Alliance Business Manager:

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Transactions

Mergers Alliance engineering transactions

Sale of
Ravin Cables
to **Prysmian Cables**
India / Italy

Sale of
TGE Gas Engineering
to **CIMC**
UK / China

Sale of
Gautschi Engineering
to **EBNER Group**
Germany

Sale of
G&B Specialities
to **Wabtec Corp**
Canada / USA

Advisor on Refinancing of
Aladdin Oil Gas Company
Norway / Russia

Acquisition by
Dunedin Capital Partners
of **WFEL**
UK / USA

Acquisition by
CIE Automotive
of **Pintura**
Spain / Mexico

Sale of
Dennis Eagle
to **Ros Roca**
UK / Spain

Sale of
Kiefel Extrusion
to **Reifenhauser**
Germany

Acquisition by
Geveke
of **CompAir**
The Netherlands / Belgium

Sale of
Becorit
to **Wabtec Corp**
Germany / USA

Sale of
Coherent Technologies
to **Lockheed Martin**
USA

Mergers Alliance

International corporate finance

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